

6 December 2013

Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, 10017
USA

Dear James,

IAASB Exposure Draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*

Thank you for the opportunity to comment, and for granting the New Zealand Auditing and Assurance Standards Board (NZAuASB) an extension until 6 December to submit its comments. We submit the feedback from the NZAuASB in the attachment.

Overall, the NZAuASB is supportive of this IAASB initiative. Exploring options to enhance the relevance and usefulness of the auditor's report by providing transparency about significant matters in the audit of the financial statements is timely and is in the public interest. The NZAuASB recognises that the requirements to report Key Audit Matters (KAM) are narrower than the original proposals on audit commentary, in recognition of concerns regarding the role and scope of the audit and the risk of blurring the roles of management and the role of the auditor. The NZAuASB is supportive of the change in focus to KAM and considers that this section of the audit report will enhance the usefulness of the auditor's report to users.

While the NZAuASB is supportive of including relevant information in the audit report regarding KAM, the NZAuASB's remains concerned that there is an inherent risk that the audit report may introduce certain original information about the entity that is not otherwise set out in the financial statements. The framework set out in the proposed Standard requires the auditor to report on matters that may not necessarily be required to be disclosed or reported in the financial statements. The NZAuASB considers that the primary responsibility to report and disclose relevant information to the users of the financial statements remains that of management and of those charged with governance. Specifically, the NZAuASB considers that there is a potential risk that the proposed going concern reporting may be misunderstood or misinterpreted by users of the financial statements and considers an optimal solution would involve improvements in the disclosures in the financial statements by management on going concern. The NZAuASB therefore strongly encourages the IAASB to continue to work together with the IASB and IPSASB as part of a holistic approach to improve reporting on going concern to users of the financial statements.

To achieve the overall desired outcome of providing more relevant information to users the NZAuASB considers that further refinements are needed to the proposed requirements and application guidance. Broadly, the main refinements that are needed are:

- clarification of the overall framework and criteria that assists auditors in determining KAM, and describing the KAM;
- avoiding disclosure of matters that introduces originating information or could have unintended consequences;
- further guidance and examples on how to deal with those KAM that may be viewed as sensitive;

- guidance on how to address and resolve disagreements with those charged with governance; and
- clarification of users' needs and concerns.

The NZAuASB considered the range of very divergent views expressed by stakeholders it consulted with when developing its submission. The NZAuASB's responses to the specific questions raised in the Exposure Draft are set out in Attachment 1, and a summary of the views received from key stakeholders the NZAuASB consulted with is included in Attachment 2. The NZAuASB trusts that this will assist the IAASB to understand both the NZAuASB's position as the national standard setter and the position and divergent views of New Zealand stakeholders on the proposals.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,



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Submission of the New Zealand Auditing and Assurance Standard Board
Exposure Draft, Reporting on Audited Financial Statements: Proposed New
and Revised International Standards on Auditing (ISAs)

Schedule of Responses to the IAASB's Specific Questions

Key Audit Matters

- 1) **Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why not?**

NZAuASB response

- (a) The NZAuASB is supportive of this IAASB initiative. Exploring options to enhance the relevance and usefulness of the auditor report by providing transparency about significant matters in the audit of the financial statements is timely and is in the public interest. We consider that the introduction of the new Key Audit Matters (KAM) section will enhance the usefulness of the auditor's report to the user.
- (b) The NZAuASB recognises that the requirements to report KAM are narrower than the original proposals on audit commentary, in recognition of concerns regarding the role and scope of the audit and the risk of blurring the roles of management and the role of the auditor. The NZAuASB is more comfortable with the reporting requirements being narrower and limited to KAM.
- (c) However, the NZAuASB still has concerns regarding the implications of the new requirements for the auditor and considers that there is still a risk that the auditor may introduce new information. In particular there are practical issues of requiring the disclosure of originating information about the entity which could result in a breach of confidentiality. There are also issues relating to auditor liability. We believe that it is not the role of the auditor to originate new information about an entity but to provide an independent opinion on the information that has been provided in order to enhance the user's confidence in the financial statements.
- (d) The NZAuASB considers that based on the current proposals there may also be unintended consequences from the introduction of the KAM section to the auditor report. For example, investors may become aware of risks in the entity if the auditor commented on some KAM, which could have unintentional market consequences. The guidance in paragraph A36 mentions the situation where KAM may be viewed as sensitive, but does not adequately address it.
- (e) To enhance the usefulness of the audit report, the KAM reported should be those that provide value for the users and should be focused on matters relating to what is in the financial statements and judgements used. The NZAuASB acknowledges that the IAASB has recognised this, but considers that the criteria for inclusion of KAM should be further clarified to minimise the risk of unintended consequences. To minimise that risk the obligation of auditors should be as clear and concise as it can be.

- 2) **Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor’s judgement in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgements about what matters are determined to be key audit matters? If not, why?**

NZAuASB response

- (a) The NZAuASB recognises that the proposed requirements and application material in proposed ISA 701 are fundamental, and not without challenges to implement. Based on feedback received from practitioners they consider this area to be very subjective and question the consistency of application of the standard by auditors. The NZAuASB considers that in order to achieve the overall desired outcome of providing more relevant information to users further refinements are needed to the proposed requirements and application guidance. The main refinements that are needed are:
- clarification of the overall framework and criteria that assists auditors in determining KAM, and describing the KAM;
 - avoiding disclosure of matters that introduces originating information or could have unintended consequences; and
 - further guidance and examples on how to deal with those KAM that may be viewed as sensitive.

Clarification of the overall framework

- (b) KAM are described as those matters that the auditor considers of most significance, only selected from matters discussed with those charged with governance, determined as areas of significant auditor attention. The proposals contemplate three areas that would result in the identification of KAM: areas of significant risk (paragraph 8(a)), areas where the auditor encountered significant difficulty (paragraph 8(b)), and areas that required significant modification of the audit approach (paragraph 8(c)).
- (c) The NZAuASB considers that if disclosures about risk and the application of judgement have been made in the financial statements, there is potential value to the user of the auditor’s report emphasising the impact on the audit in relation to those risks, so as to enhance the user’s trust in the financial statements. The NZAuASB agrees that KAM should focus on information that is of value to the user, relating to what is in the financial statements and about the judgements used by the preparer.
- (d) The NZAuASB acknowledges the IAASB’s intention that a focus on “matters of most significance in the audit” is intended to result in the auditor reporting on matters that are likely to be of interest to users. In some instances however, the NZAuASB queries the value to the user of such information appearing in the auditor report. For example, of what further value to the user is it for the auditor to disclose that it was difficult to obtain sufficient appropriate information on a matter, or about a significant deficiency in internal control, if these had no impact on the overall conclusion of the auditor on the financial statements? (On the other hand, there may be value in providing information on KAM that arose because of matters outside the control of the entity, as opposed to matters relating to internal control breakdowns).
- (e) The NZAuASB recommends that the IAASB further clarifies the criteria for inclusion of KAM in the auditor’s report. **The question to ask is whether the disclosure will enhance the user’s confidence in the financial statements.** This is based on the NZAuASB’s belief that the purpose of an audit engagement and the resulting audit report is to express an opinion on whether the

financial statements as a whole are prepared in accordance with the applicable financial framework, and whether the financial statements provide a fair and true view of the entity's financial position, performance and cash flow. If management has disclosed the risk in the financial statements, there is value to the user for the auditor to enhance the user's understanding of the audit in relation to that risk. For example, the NZAuASB considers there would be value for the user to understand that the auditor has given special attention to areas of significant complexity in the financial statements or that involve the application of significant judgement or estimation by management. However, the NZAuASB questions whether circumstances that require significant modifications of the planned audit approach, for example significant deficiencies in internal control deficiencies, in and of itself, constitute a KAM because it will not enhance the user's confidence in the financial statements.

Risk of introducing originating information or disclosing sensitive information

- (f) The NZAuASB considers that under the proposed framework there is still a risk of the auditor introducing new information about the entity. Paragraph A37 contemplates such a scenario, stating it is appropriate for the auditor to seek to avoid providing original information. This is insufficient guidance to the auditor as it actually contemplates the auditor disclosing additional information that the auditor considers is critical to the description of the audit matter and such information is not prohibited by law or regulation. Auditors are comfortable to provide information on risks that are disclosed in the financial statements, as it is management's role to disclose the risks. However, auditors are not comfortable and foresee problems if relevant information is not reported in the financial statements.
- (g) Under the ethical requirements of the International Code of Ethics for Professional Accountants (section 140), the principle of confidentiality imposes an obligation on the auditor to refrain from disclosing outside the firm confidential information acquired as a result of the audit without proper authority. In New Zealand, these ethical requirements have been adopted as regulations, similar to the auditing standards. The conflict between these two requirements needs to be addressed: one requiring disclosure of confidential information and the other prohibiting such disclosure. Requiring the disclosure of confidential and sensitive information goes beyond the remit of the auditor, will impact on auditor liability and will also add strain to the auditor-client relationship. These factors are likely to be detrimental to audit quality. Other examples are suspected illegal acts, fraud, litigation or commercial disputes, problems with management and internal control deficiencies.
- (h) The NZAuASB considers that this matter is critical to the proposals contemplated by the IAASB. The need for transparency around the audit is well understood and is supported by most stakeholders. However, this should not fundamentally change the role of the audit, which has never been to provide additional information about an entity, or to provide analysis and commentary on the entity's financial statements. In most instances, the KAM would draw attention to matters disclosed in the financial statements but the standard needs to deal more comprehensively with the practical challenges and ethical dilemma that the auditor would face if the matter is not disclosed in the financial statements. The NZAuASB notes that this is addressed to some extent by the guidance in para A35, which notes that the auditor may consider obtaining legal advice in such a situation but the NZAuASB thinks that this paragraph needs further embellishment.
- (i) Another area of concern to the NZAuASB is where an auditor spends significant time and effort in relation to a potential material uncertainty regarding going concern, but where the overall conclusion reached is that there is no material uncertainty. In this instance the entity will accordingly make no disclosure in the financial statements. Under the proposals the situation will meet the criteria of a KAM and the auditor should disclose this in the auditor's report. However, this

has the risk of introducing originating information, as well as a risk of other unintended consequences.

- (j) The NZAuASB therefore recommends increased guidance on:
- how the auditor should deal with the practical challenges and ethical dilemma created by these areas of conflicting obligations;
 - how to address and resolve disagreements with those charged with governance; and
 - consultations to undertake, including obtaining legal advice.

Consistency of application

- (k) The NZAuASB believes that although the application of proposed ISA 701 is heavily reliant on the application of professional judgement, it is likely to result in reasonably consistent auditor judgements about significant audit risks. Reporting matters that are of significance in the audit to those charged with governance is reasonably well understood and probably relatively consistently applied by auditors.
- (l) However, the NZAuASB considers that the difference between a KAM (matters of most significance in the audit) and a significant audit risk needs to be explained more clearly. As stated in para A15, it does not necessarily follow that the identification of matters of significant audit risk mean that such a matter will be determined to be a key audit matter. The standard proposes that it is only those matters that are considered to be of **most significance** to the audit that will be a KAM. A number of stakeholders expressed concerns on how to select KAM from a list of potential KAM, and how best to document the rationale for the selections made.
- (m) The NZAuASB considers that there are a broad number of issues that could be identified as KAM. As contemplated in paragraph A7, “When the auditor has determined a long list of key audit matters, the auditor may need to reconsider whether each of these matters meets the definition of a key audit matter.” It is not clear which criteria the auditor will need to apply to decide which issues to include from many.
- (n) The Guidance on matters of most significance in the ED include those matters about which the auditor and those charged with governance (TCWG) had the most robust dialogue, areas of significant auditor attention as they are often related to areas of significant management judgement, and areas of significant judgements made by the auditor in forming the opinion. This is intended to result in the auditor reporting on matters that are likely to be of interest to users. As noted above, the NZAuASB recommends that the scope is further clarified to only include those matters of most significance in the audit where communication about the audit consideration of the matter will enhance the user’s confidence in the financial statements, will not introduce originating information, and with appropriate consideration given to the treatment of sensitive information.
- (o) In summary to the IAASB’s question above relating to “appropriate framework and reasonably consistent auditor judgements, the NZAUASB recommends that:
- i. the IAASB considers clarifying the scope of KAM by:
- eliminating the criteria at paragraph 8(b) and 8(c) in proposed ISA 701;
 - requiring the inclusion of only those matters of most significance that will enhance the user’s confidence in the financial statements;
 - not allowing the introduction of originating information.

- ii. the IAASB provide increased guidance on:
- how the auditor should deal with the practical challenges and ethical dilemma created by areas of conflicting obligations;
 - how to address and resolve disagreements with those charged with governance; and
 - consultations to undertake, including obtaining legal advice in situations covered by the above two bullet points.
- 3) **Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the description of individual key audit matters to be communicated in the auditor's report? If not, why not?**

NZAuASB response

- (a) The NZAuASB supports the principles-based approach to determining the appropriate amount of detail to include in the auditor's report. In particular, it supports the decision that it may not be necessary to require the auditor to describe audit procedures in every case. However, the NZAuASB believes it would be meaningful for the auditor, in describing the KAM, to explain why they are of particular importance to the audit, and how they were addressed in the audit.
- (b) The NZAuASB further supports the linkage to the audit documentation in accordance with ISA 230 to assist auditors. However, the NZAuASB believes that the description of KAM that will be the most difficult to auditors are the description of those matters that may be sensitive, such as a fraud risk specifically identified in the context of an entity and a significant deficiency in internal control, and providing original information about the entity that is the responsibility of management. The NZAuASB notes that the illustrative auditor's report does not include examples of those matters, and considers that paragraphs A35 to A36 do not provide sufficient guidance to auditors to appropriately consider what should be included in the description of KAM in those circumstances. The NZAuASB strongly recommends that the IAASB at a minimum provide examples in the illustrative audit report to cover those matters. The NZAuASB has also noted this in the response to question 4 below.
- 4) **Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.**

NZAuASB response

- (a) The NZAuASB considers the idea of the illustrative examples to be useful in indicating how KAM may be disclosed in practice. In particular, intentionally taking different approaches in developing the illustrations of individual KAM is particularly helpful, i.e. one covering certain audit procedures, one covering a conclusion in relation to the appropriateness of a model used and one covering a sensitive area like a risk of fraud.
- (b) The NZAuASB considers that the second example that includes a conclusion in relation to the appropriateness of the use of the entity-developed model, "and we concluded the use of such a model was appropriate" runs the risk of risk of implying or being misinterpreted as an audit opinion

on this element. The NZAuASB acknowledges the guidance at proposed ISA 701 paragraph A41, and notes that the words used in the example risk increasing the expectation gap, as the auditor has not necessarily been engaged to provide assurance for individual accounts or disclosures. The NZAuASB recommends that the standard make it clearer that auditors are not expected to provide opinions on an individual KAM.

- (c) We recommend that if the standard continues to require the auditor to make disclosures about a matter not disclosed in the financial statements, that the illustrations need to include such an example covering a sensitive issue, including internal control weaknesses, management incompetence, risks of fraud and contentious matters. The revenue recognition issue, as covered in example 4, is a very generic example and is unlikely to be a sensitive topic with the client, whereas an example where a fraud was discovered in the payroll, was addressed by management but which required additional testing by the auditor in order to obtain sufficient appropriate audit evidence is likely to be more sensitive, and pose greater practical challenges to the auditor when determining how to disclose the matter in the KAM section of the report.

- 5) Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor’s ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?**

NZAuASB response

- (a) The NZAuASB supports the proposal that where KAM are communicated on a voluntary basis proposed ISA 701 must be followed. The NZAuASB also agrees that the terms of the engagement should make it clear that the auditor of non-listed entities has the ability to communicate KAM in the auditor’s report if not otherwise required to do so.
 - (b) The NZAuASB is not aware of other practical considerations that may affect the auditor’s ability to decide to communicate KAM when not required to do so.
 - (c) The NZAuASB considers that the auditor’s report should be consistent for all types of entities, regardless of the nature or the size of the entity for an audit engagement. This is important for consistency and important so as not to increase the expectation gap or information gap any further. A standard report used for all types of entities is familiar for users and is comparable. Accordingly the NZAuASB sees a natural progression to mandating KAM reporting to a wider community than just listed entities. The NZAuASB acknowledges that at this time it is up to national standard setters to decide to which entities it should apply, and notes that the IAASB has signalled its intention to decide on the matter after doing a post implementation review in two years. In the interests of global consistency, the NZAuASB encourages the IAASB to address this issue as soon as practicable.
- 6) Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate?**
- (a) **If so, do respondents agree with the proposed requirements addressing such circumstances?**
 - (b) **If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be**

taken to ensure users of the financial statements are aware of the auditor's responsibilities under proposed ISA 701 and the determination, in the auditor's professional judgement, that there are no key audit matters to communicate?

NZAuASB response

- (a) The NZAuASB agrees that it is appropriate for the proposed standard to remain principles based and to allow for the possibility that the auditor may determine that there are no KAM to communicate.

- 7) Do respondents agree that, when comparative financial information is presented, the auditor's communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?**

NZAuASB response

- (a) The NZAuASB agrees that KAM should be limited to the audit of the most recent financial period.

- 8) Do respondents agree with the IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?**

NZAuASB response

- (a) The NZAuASB agrees that there is a need to retain the concepts of emphasis of matter and other matter paragraphs, especially for entities not required to report KAM. However, an auditor's report that includes KAM, EOM and OM paragraphs potentially will be confusing to users who may have difficulty understanding why some matters are reported as KAM and others are reported in an EOM or OM paragraph. The NZAuASB agrees that such a situation where an entity required to report KAM would also report an EOM or OM will be rare, but where it does occur, the NZAuASB strongly recommends that an EOM be clearly distinguished from a KAM.

Going Concern

- 9) Do respondents agree with the statements included in the illustrative auditor's reports relating to:**
- (a) **The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements?**
- (b) **Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised))?**

In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.

NZAuASB response

- (a) The NZAuASB supports the proposed statement relating to the appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements.
- (b) The NZAuASB supports the proposed statement as to whether the auditor has identified a material uncertainty that may cast doubt on the entity's ability to continue as a going concern.
- (c) The NZAuASB considers that there is a potential risk that the going concern reporting may be misunderstood or misinterpreted by users of the financial statements, and does not believe that the proposals will provide the transparency around going concern judgements that stakeholders are seeking. The NZAuASB considers an optimal solution would involve improvements in the disclosures in the financial statements by management, and encourages the IAASB to continue to work together with the IASB and IPSASB as part of a holistic approach to reporting on going concern.
- (d) To further improve the information for users and to complement the proposed new conclusions and statements required by the auditor, the NZAuASB recommends that there is clear communication in the audit report that it is management's responsibility to determine the appropriateness of using the going concern basis of accounting. This should be made explicit either in the going concern section or responsibilities of management section of the auditor's report.
- (e) To minimise the risk of misunderstanding or misinterpretation by users, the NZAuASB further recommends that the heading in the auditor's report be changed from "Going Concern" to "Going Concern Basis of Accounting". This will also align more clearly with the proposed text on reporting on the going concern basis accounting in the auditor's report.

10) What are respondent's views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?

NZAuASB response

- (a) The NZAuASB is of the view that a statement that the going concern basis cannot be guaranteed should be included whether a material uncertainty is identified or not. It is not clear why the existence of a material uncertainty would change the need to include the guarantee sentence, as in both cases the going concern basis of accounting is considered appropriate. The NZAuASB recommends that the guarantee sentence is included in the auditor's report in all circumstances other than when the auditor issues a disclaimer of opinion or concludes the entity is not a going concern, and therefore the going concern basis of accounting is not appropriate.
- (b) The NZAuASB does not support the auditor making a representation, or the perception that the auditor is making a representation, on behalf of management. A suggested solution is to amend the wording to "*However, it is not possible for any party, including the auditor, to guarantee the Group's ability to continue as a going concern*". Alternatively, the proposals could be amended so that the standard requires the auditor to obtain representations from management to enable reference to management to be included in the guarantee sentence in the auditor's report.
- (c) The NZAuASB further notes that ISA 570 focuses on the existence of a material uncertainty and is silent on "mitigating circumstances" which may exist when a going concern issue is present but due to mitigating circumstances does not result in a material uncertainty. This could result in misinterpretation or misunderstanding by readers of the auditor's report, as they are not informed as to what the mitigating circumstances or other reasons may be (for example, ISA 570, Illustration 3). The NZAuASB suggests that the proposed standard be amended to make it clear that auditors

should include sufficient information supporting the appropriateness of the auditor's assessment of the use of the going concern basis of accounting by management/ those charged with governance. This should apply in those circumstances where either the financial statements or the auditor's report provide information that there may be a going concern issue but where the auditor concludes the going concern basis of accounting is appropriate.

Compliance with Independence and Other Relevant Ethical Requirements

11) What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?

NZAuASB response

- (a) The NZAuASB strongly supports this proposal. However, the NZAuASB considers that there are compelling reasons to go further than the IAASB is proposing in its exposure draft.
- (b) The NZAuASB considers that being, and being seen to be, independent are fundamental to the value placed on the audit opinion. Accordingly, the NZAuASB's view is that there is a need to disclose to the readers of the auditor's report the existence of any relationships that might bear on independence. Disclosure only to those charged with governance is insufficient due to the importance of independence to the value of the auditor's report.
- (c) The NZAuASB recommends that the IAASB considers amending the standard to require such disclosure. An example of wording which can be used in the audit report where the auditor has a relationship other than that of auditor, or interests in, an entity or any of its subsidiaries is (to follow on from the independence statement disclosing the source of independence and other relevant ethical requirements) is:

“ In addition to the audit, we have carried out an (assurance) engagement in the area of [insert description of engagement], which is compatible with those independence requirements. Other than the audit and this assignment, we have no relationship with, or interest in, the (entity)”.

- (d) It is not clear from the ED what the disclosure requirements are in a Group situation, and whether the relevant ethical requirements to be stated are those of the component auditors, for example where the ethical requirements may differ in cross jurisdictional audits. The NZAuASB does not believe it necessary or helpful to the reader to state all the ethical requirements the component auditors need to comply with, and that in a group situation reference should be made to the ethical requirements including independence applicable to the group auditor. We recommend that the requirement be clarified in the final standard to avoid misunderstanding.

Disclosure of the Name of the Engagement Partner

12) What are respondents' views as to the proposal to require disclosure of the name of the engagement partner for auditors of financial statement of listed entities and include a “harm's way exemption”? What difficulties, if any, may arise at the national level as a result of this requirement?

NZAuASB response

- (a) The IAASB has not succeeded in articulating the reason for transparency, and the perceived benefit of this proposal is not clear. We understand that there are some jurisdictions where the partner's name is included in the audit report because there is a statutory requirement to do so. The NZAuASB considers that this should be a flexible requirement to be determined by national standard setters.

Other Improvements to Proposed ISA 700 (Revised)

- 13) What are respondents' views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?**

NZAuASB response

- (a) The NZAuASB agrees with the improved description of the responsibilities of the auditor and key features of the audit.
- (b) The NZAuASB proposes to remove the option to refer to a website in the auditor report in New Zealand. The NZAuASB is concerned that users of the auditor's report are unlikely to refer to such a website. Information about the responsibilities of the auditor is critical to understanding the role of the audit. Moving this information to a website therefore increases the risk of widening the expectation gap.
- (c) The NZAuASB agrees that the inclusion in the auditor's report of the reference to those charged with governance being responsible for overseeing the entity's financial reporting process acknowledges this essential role in the financial reporting process in those jurisdictions where management is responsible for the preparation and fair presentation of the statements. In New Zealand, those charged with governance are responsible for the preparation of the financial statements and hence it will remain appropriate for the auditor's report in New Zealand to describe the responsibilities of those charged with governance rather than management for the financial statements.

- 14) What are respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraphs 20-45 and the circumstances addressed in paragraphs 46-48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor's report, and the need for flexibility to accommodate national reporting circumstances?**

NZAuASB response

- (a) The NZAuASB agrees with the proposal not to mandate the ordering of sections of the auditor's report.
- (b) Although consistency is desirable, the NZAuASB is of the view that it is important to allow for national tailoring of the audit report to enable local legislative requirements to be met, when preparing the audit report. If not, although the national standards may conform with the International Standards on Auditing in all other respects, due to local legislative requirements the local auditing standards may not be able to conform to international standards.

Effective date

The IAASB is interested in respondent's views on an appropriate effective date for the Proposed ISAs (see paragraphs 23-26 of the Matters on Which Feedback is Sought section).

NZAuASB response

- (a) The NZAuASB agrees that it is important that enhancements to auditor reporting come into effect as soon as possible. However, the proposed changes are significant and sufficient time should be allowed for national adoption and implementation, including training and changes to firms' audit methodologies. Assuming that the final standards are issued in the fourth quarter of 2014, the NZAuASB supports an effective date for the standards to be for audits of financial statements for periods beginning on or after 1 January 2016, with early adoption permitted or encouraged.

Editorial comments

- The NZAuASB recommends that the IAASB update references to the balance sheet and income statement to recently adopted terminology such as statement of financial position and statement of comprehensive income. (ISA (NZ) 200 paragraph A8).
- Paragraph A20 and illustrative example 4 of ISA 700 (Revised) also needs to be updated as it still refers to balance sheet and income statement.

Summary of response from key stakeholders the NZAuASB consulted with

Key Audit Matters

- This is a paradigm shift for auditors which may result in:
 - KAM raising doubts in the minds of users
 - Auditors being publicly challenged for their decisions
 - Auditor over comment for fear of not reporting
 - Disputes over breaches of confidentiality
 - Clouding of the audit opinion
 - Increases to auditor liability and possibly increased costs.
 - a barrier to free discussions with management or those charged with governance, which could also have a large impact on audit fees.
- On the other hand KAM allows the auditor to make comments and bring forward key issues to the front of the annual report where users may easily find them.
- Key audit judgements may be a more relevant concept.
- If the ED requirements are considered to be best practice, why are they not required for audits of all entities, rather than being restricted to listed entities?
- Comments from shareholders include the following:
 - Generally shareholders prefer a simple certification that an audit has been conducted to established standards, rather than a longer audit report
 - KAM to be summarised and cross referenced to notes in the accounts
- In favour of KAM explaining matters such as recognition of future tax liabilities. There may be practical challenges in disclosing the information.
- There may be disagreement with the client about what KAM to include in the audit report.
- The client may argue that information is sensitive or could be self-fulfilling.
- The audit regulator may have a different interpretation of KAM than the auditor.

Emphasis of matters paragraphs

- Auditors have expressed concern that where a matter is not reported in an Emphasis of Matter paragraph as it has been determined to be a key audit matter and disclosed as such, that the objective of the disclosure of an emphasis of matter will not be met by the disclosure of the matter as a key audit matter.

Going Concern(GC)

- The examples confuse rather than clarify the situation, as well as practically shifting reporting responsibilities and liability.
- Some practitioners think GC matters should only be reported by exception, and not always. The current use of EOM for GC issues is seen as something the profession is doing well and is understood.
- Some shareholders consider that the explanation of the “going concern assumption” is useful, and well understood by investors. Therefore the going concern statement can be abbreviated to mention only those material uncertainties, which are a significant risk to investors.

Disclosure of the name of the engagement partner

- The regulators, investors and funders the NZAuASB consulted were in favour of disclosing the name of individual auditors, as they were of the view that this may assist with assessing whether a quality audit had been done and therefore would contribute to audit quality. However, users generally mostly value the brand name of the firm, rather than the name of an individual partner.
- Auditors consulted with were concerned about personal liability. If things go wrong, the engagement partner could be unfairly tarnished. In addition, from a practical point of view there are often many partners involved on an engagement, a tax partner, any number of audit partners, and the quality review engagement partner. All of these partners collectively form the audit opinion on the financial statements and therefore it is questionable whether one individual partner can be named as in many instances it is a firm's position, not one individual partner.